

**CHANCELLOR CARE CENTER  
OF DELMAR, INC.  
AUDIT REPORT  
MEDICAID COST REPORT AND  
NURSING WAGE SURVEY  
JUNE 30, 2005**

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OF DELMAR, INC.  
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## Independent Auditors' Report

State of Delaware  
Office of Auditor of Accounts  
Dover, Delaware

We have audited the Statement of Reimbursement Cost for Skilled and Intermediate Care Nursing Facilities – Title XIX, pages 2 through 6 (the Cost Report) and Nursing Wage Survey (the Survey) of Chancellor Care Center of Delmar, Inc. (the Facility) for the year ended June 30, 2005. The Cost Report and Survey are the responsibility of the Facility's management. Our responsibility is to express an opinion on the Cost Report and Survey based on our audit, which are not affixed hereto.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Cost Report and Survey are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Cost Report and Survey. An audit also includes assessing the accounting principles and Medicaid principles of cost reimbursement used and significant estimates made by management, as well as evaluation of the overall presentation of the Cost Report and Survey. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, except for the accompanying Schedule of Adjustments, the Cost Report and Survey of Chancellor Care Center of Delmar, Inc. referred to above presents fairly, in all material respects, the reimbursement costs of the Facility for the year ended June 30, 2005 in conformity with accounting principles generally accepted in the United States of America and Medicaid principles of cost reimbursement.

## Independent Auditors' Report (Cont'd.)

In accordance with *Government Auditing Standards*, we also issued our report dated March 29, 2008 on our consideration of the Facility's internal control over reporting for the Cost Report and Survey and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*McBride, Shopa & Co*

Wilmington, Delaware  
March 29, 2008

**CHANCELLOR CARE CENTER OF DELMAR**  
**SCHEDULE OF ADJUSTMENTS TO THE STATEMENT OF REIMBURSEMENT**  
**COST FOR SKILLED AND INTERMEDIATE CARE NURSING FACILITIES - TITLE XIX**  
**AND THE NURSING WAGE SURVEY**  
**YEAR ENDED JUNE 30, 2005**

<u>Description</u>	<u>Page</u>	<u>Line</u>	<u>As Filed</u> <u>Amounts</u>	<u>Audit</u> <u>Adjustments</u> <u>No.</u> <u>Amount</u>	<u>Adjusted</u> <u>Amounts</u>	<u>Adjusted</u> <u>Cost</u> <u>Per Day</u>	<u>Note</u> <u>Ref.</u>
<b><u>PART I - COST REPORT TRIAL BALANCE AND ADJUSTMENTS</u></b>							
<i>Primary Patient Care Costs - (lines 1-5)</i>							
Staff Nurse Salaries	2	1b	\$ 2,164,567	1 \$ 143,759	\$ 2,308,326		S-1
Employee Benefits	2	2	674,689	2 (159,761)	514,928		S-1
Other Primary Patient Care Costs	2	4	81,599	3 (56,990)	24,609		OC-3
Unadjusted lines	2	1a, 3	-	-	-		
<b>Subtotal - Primary Patient Care Costs</b>	<b>2</b>	<b>5</b>	<b>2,920,855</b>	<b>(72,992)</b>	<b>2,847,863</b>	<b>\$ 77.26</b>	
<i>Secondary Patient Care Costs - (lines 6-14)</i>							
Social Services	2	7	34,879	1 2,978	37,857		S-1
Employee Benefits	2	8	10,872	2 (2,427)	8,445		S-1
Raw Food	2	9	240,790	3 (500)	240,290		OC-1
Medical Supplies	2	10	106,682	4 56,990	163,672		OC-3
Pharmacy (non Rx)	2	11	34,913	5 (4,108)	30,805		OC-2
Unadjusted lines	2	6, 12, 13	-	-	-		
<b>Subtotal - Secondary Patient Care Costs</b>	<b>2</b>	<b>14</b>	<b>428,136</b>	<b>52,933</b>	<b>481,069</b>	<b>13.05</b>	
<i>Support Service Costs - (lines 15-22)</i>							
Dietary	2	15	248,158	1 10,318 2 (2,573)	255,903		S-1 OC-2
Oper. & Maint. Of Facility	2	16	230,815	3 6,293	237,108		S-1
Housekeeping	2	17	96,681	4 6,137 5 (2,617)	100,201		S-1 OC-2
Laundry and Linen	2	18	67,620	6 4,976	72,596		S-1
Patient Recreation	2	19	65,199	7 5,295 8 (4,680)	65,814		S-1 OC-1
Employee Benefits	2	20	143,384	9 (33,402)	109,982		S-1
Unadjusted lines	2	21	9,330	-	9,330		
<b>Subtotal - Support Service Costs</b>	<b>2</b>	<b>22</b>	<b>861,187</b>	<b>(10,253)</b>	<b>850,934</b>	<b>23.08</b>	

**CHANCELLOR CARE CENTER OF DELMAR**  
**SCHEDULE OF ADJUSTMENTS TO THE STATEMENT OF REIMBURSEMENT**  
**COST FOR SKILLED AND INTERMEDIATE CARE NURSING FACILITIES - TITLE XIX**  
**AND THE NURSING WAGE SURVEY**  
**YEAR ENDED JUNE 30, 2005**

<u>Description</u>	<u>Page</u>	<u>Line</u>	<u>As Filed Amounts</u>	<u>Audit Adjustments</u>		<u>Adjusted Amounts</u>	<u>Adjusted Cost Per Day</u>	<u>Note Ref.</u>
				<u>No.</u>	<u>Amount</u>			
<i>Administrative &amp; Routine Costs - (lines 23-32)</i>								
Owner/Exec. Director Salary	2	23	36,918	1	9,081	45,999		S-1
Medical & Nursing Dir. Salary	2	24	88,755	2	24,126	112,881		S-1
Employee Benefits	2	26	131,102	3	(19,247)	111,855		S-1
Medical Records	2	27	28,376	4	1,874	30,250		S-1
Unadjusted lines	2, 3	25, 28, 29, 30, 31	<u>804,521</u>		<u>-</u>	<u>804,521</u>		
<b>Subtotal - Administrative &amp; Routine</b>	<b>3</b>	<b>32</b>	<b>1,089,672</b>		<b>15,834</b>	<b>1,105,506</b>	<b>29.99</b>	
<i>Capital Costs (lines 33-39)</i>								
Depreciation	3	36	159,400	1	(22,816)	136,584		CC-1
Other Capital Costs	3	38	27,037	2	5,180	32,217		OC-1
Unadjusted lines	3	33, 34, 35, 37	<u>310,906</u>		<u>-</u>	<u>310,906</u>		
<b>Subtotal - Capital Costs</b>	<b>3</b>	<b>39</b>	<b>497,343</b>		<b>(17,636)</b>	<b>479,707</b>	<b>13.01</b>	
<b>SUBTOTAL</b>	<b>3</b>	<b>40</b>	<b>5,797,193</b>		<b>(32,114)</b>	<b>5,765,079</b>	<b>156.40</b>	
<i>Ancillary Costs - unadjusted (lines 41-49)</i>	<b>3</b>	<b>49</b>	<b>398,304</b>		<b>-</b>	<b>398,304</b>	<b>10.81</b>	
<i>Other Costs - unadjusted (lines 50-52)</i>	<b>3</b>	<b>52</b>	<b>12,971</b>		<b>-</b>	<b>12,971</b>	<b>0.35</b>	
<b>TOTAL COSTS</b>	<b>3</b>	<b>53</b>	<b>\$ 6,208,468</b>		<b>\$ (32,114)</b>	<b>\$ 6,176,354</b>	<b>\$ 167.55</b>	

**PART II - COST REPORT PATIENT DAYS**

Total beds	6	1,3	109	-	109
Total bed days available	6	4	39,785	-	39,785
90% minimum census threshold	6		35,807	-	35,807
Total census days	6	5E	36,862	-	36,862

**CHANCELLOR CARE CENTER OF DELMAR**  
**SCHEDULE OF ADJUSTMENTS TO THE STATEMENT OF REIMBURSEMENT**  
**COST FOR SKILLED AND INTERMEDIATE CARE NURSING FACILITIES - TITLE XIX**  
**AND THE NURSING WAGE SURVEY**  
**YEAR ENDED JUNE 30, 2005**

<u>Description</u>	<u>Page</u>	<u>Line</u>	<u>As Filed</u> <u>Amounts</u>	<u>Audit</u> <u>Adjustments</u>		<u>Adjusted</u> <u>Amounts</u>	<u>Adjusted</u> <u>Cost</u> <u>Per Day</u>	<u>Note</u> <u>Ref.</u>
				<u>No.</u>	<u>Amount</u>			
<u>PART III - NURSING WAGE SURVEY</u>								
<i>II. Staff Nurse Information</i>								
Number of Staff Paid During Pay Period: CNAs	11	B	54		4	58		NWS-1
Total Payroll by category:CNAs	11	B	\$ 39,773		(140)	\$ 39,633		NWS-1
Total Hours Paid to Staff for Pay Period: RNs	11	B	647		1	648		NWS-1
Total Hours Paid to Staff for Pay Period: CNAs	11	B	3,659		6	3,665		NWS-1

**PART IV - DETAILED EXPLANATION OF ADJUSTMENTS**

**Adjustments affecting salaries (S):**

**S-1** To reclass salaries paid to staff while on holiday and bereavement leave, and personal time off from the respective benefit (lines 2, 8, 20, & 26) to the respective salary (lines 1b, 7, 8, 15, 16, 17, 18, 19, 23, 24, & 27). Also, to adjust allocation of benefits as a result of the reclassification of holiday, bereavement leave, and personal time off.

**Adjustments affecting capital costs (CC):**

**CC-1** To adjust depreciation to allowable amount under Medicaid regulations, and also to adjust depreciation to amount supported by facility's fixed asset schedule.

**Adjustments affecting other costs (OC):**

**OC-1** To offset revenue against proper cost report line. Partial reversal of facility adjustments number 22 and 23.

**OC-2** To remove costs which could not be supported by facility

**OC-3** To reclassify incontinency pads and nursing supplies out of other primary patient care costs and into medical supplies

**Adjustments affecting nursing wage survey (NWS):**

**NWS-1** To adjust nursing wage survey to amounts supported by facility records.

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON A FINANCIAL AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

State of Delaware  
Office of Auditor of Accounts  
Department of Health & Social Services  
Division of Social Services Medicaid  
Dover, Delaware

We have audited the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities – Title XIX, pages 2 through 6 (the Cost Report) and the Nursing Wage Survey (the Survey) for Chancellor Care Center of Delmar, Inc. (the Facility) for the year ended June 30, 2005, and have issued our report thereon dated March 29, 2008, which was qualified due to the required adjustments reported in the Schedule of Adjustments accompanying it. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

### Internal Control Over Reporting

In planning and performing our audit, we considered the Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Cost Report and Survey and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the Cost Report and Survey being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Facility's Cost Report and Survey are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of reported amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters involving instances of immaterial noncompliance and nonreportable conditions or other matters involving internal control over reporting that came to our attention:

**Problem:** In its plant ledger, the facility includes several assets, which cost less than \$5,000, the allowable capitalization minimum for Medicare and Medicaid purposes. All assets in the plant ledger must be depreciated over their estimated useful lives, requiring several years before costs can be recovered through Medicare and Medicaid reimbursement. Further, the added volume of assets increases the record keeping burden of maintaining the plant ledger.

**Suggestion:** Management should consider increasing its capitalization floor to \$5,000 to allow increased reimbursement in the year of smaller asset purchases and reduce the future burden of maintaining its plant ledger.

\* \* \* \* \*

**Problem:** The Facility is depreciating some fixed assets using useful lives and methods that are not in accordance with AHA guidelines. As a result the facility is including incorrect depreciation amounts in its cost report.

**Suggestion:** Management should follow AHA guidelines when depreciating asset additions.

\* \* \* \* \*

**Problem:** The information included in the Nursing Wage Survey did not tie to supporting documentation provided by the facility.

**Suggestion:** Management should make sure that the Nursing Wage Survey information can be supported by internal records.

Problem: The Facility did not have adequate information describing employee pay rates and positions in a personnel file selected for testing.

Suggestion: Management should keep all employee files on site, up to date, and make sure all pertinent information is available on a timely basis.

\* \* \* \* \*

Problem: The Facility was unable to provide a complete copy of their General Ledger. As a result we were unable to scan the General Ledger for mispostings, and other errors.

Suggestion: Management should keep a copy of their yearly General Ledger on site, and make sure the reports are available on a timely basis.

\* \* \* \* \*

Problem: The Facility was unable to provide copies of certain invoices selected for testing. As a result, we were unable to determine if certain costs were reported correctly on the Cost Report

Suggestion: Management should keep a copy of all past invoices on site, and make sure the invoices are available on a timely basis.

\* \* \* \* \*

Problem: The Facility was unable to locate two of nine sampled patient files. As a result, we were unable to determine if the payor type for the patients matched the monthly census data.

Suggestion: Management should keep a copy of all patient files, and make sure the files are available on a timely basis.

\* \* \* \* \*

Problem: The Facility incorrectly included nonproductive salaries in employee benefits on the Medicaid Cost Report. Nonproductive salaries should be included on the appropriate cost centers' salary expense line on the Medicaid Cost Report.

Suggestion: Management should correct the Medicaid trial balance to classify these expenses as salaries expenses, which will be recorded as part of total salaries expense.

The Facility has reviewed the above matters and the Schedule of Adjustments. Written responses received by us during the comment period were considered and, if acceptable, mutually agreed-upon modifications have been reflected in our reports. Any further modifications and administrative follow-up will be handled by the Department of Health and Social Services of the State of Delaware.

This report is intended solely for the information and use of the Office of Auditor of Accounts of the State of Delaware, the Department of Health and Social Services of the State of Delaware and the Board of Directors and management of Chancellor Care Center of Delmar, Inc., Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of the Budget, and the Department of Finance. However, under 29 Del. C. Section 10002, this report is public record and its distribution is not limited.

*McBride, Shogan & Co*

Wilmington, Delaware  
March 29, 2008